PLA Pension Fund

ANNUAL REPORT & ACCOUNTS

for the year ended 31 March 2019

COMMITTEE AND ADVISERS

Committee:
Chairman Ms H Deeble

Port Authority Committee Men	Members' Committee Men
Mr R Baker	Mr D Bird
Mr A Griffiths	Miss A Jeffrey
Mr I Moncrieff	Mr C McArthur
Mrs J Tankard	Mr L Steggles

Treasurer:	Miss A Jeffrey
Secretary:	Miss D Bottacchi
Actuary:	Mr M Whitfield, Aon Hewitt
Auditors:	Ernst & Young LLP
Investment Consultant:	Aon Hewitt
Investment Managers:	Invesco Asset Management JP Morgan Alternative Asset Management Prisma Capital Partners (to May 2018) Antin Infrastructure Partners Fund II M&G Investments PIMCO Insight Investment IFM Infrastructure Manager Ruffer Investment Manager (from April 2018) BlackRock Investment Managers (from May 2018)
Custodians:	Citibank International International Fund Services PFPC Trust Company BNP Paribas Securities Luxemburg State Street Northern Trust JP Morgan Chase Bank (from May 2018) Royal Bank of Canada (from April 2018)
Solicitors:	Sacker and Partners
Bank:	National Westminster Bank PLC

In accordance with the provisions of Rule 23(2), a new Committee was appointed to serve for the period 1 April 2017 to 31 March 2022.

During the year to 31 March 2019, the Committee and Investment Sub Committee met on three occasions. An annual training day also took place during the period.

Changes in the Fund Rules

There were no changes in the benefit and contribution structure of the Fund nor in any of the other provisions of the Rules.

Membership

Active members

Membership at 31 March 2018……………………….		**320**
New members…………………………………………..		38
Total…………………………………………………..		358
Membership ceased		
• left service on pension…………………..........	7	
• withdrawal after attaining Normal Pension Age – pension paid but remained in service…...............	1	
• withdrawal before attaining Normal Pension Age – remained in service	0	
• left service before retirement age………………….	9	
• Death in service……………………………………..	0	
• Transfer out…………………………………………..	-	**17**
Membership at 31 March 2019……………………….		**341**

Statement of Investment Principles

The Committee, after consultation with the Investment Consultant and the Authority, have prepared a Statement of Investment Principles (SIP) which is available upon request.

The Rules of the Fund do not permit Employer related investments

The Committee's policy on the custody of the Fund's assets is set out in the Rules of the PLA Pension Fund. To ensure compliance with the Pensions Act 1995 a written 'Notice of Appointment' between the Pension Fund and the custodian is in place.

Pensioner numbers

	Members' Pensions	**Annuities & Widows', Widowers' & Dependants' pensions**	**EX PLANPS Pensioners & Widows**
At 31 March 2018	1519	607	14
Commenced during the year	20	49	1
Ceased during the year	95	39	0
At 31 March 2019	1444	617	15
Variation during the year	(75)	10	-

At 31 March 2019, there were 138 deferred pensioners, compared with 149 at 31 March 2018.

Transfer Values

Transfer values paid during the year were determined, where appropriate, in accordance with the statutory cash equivalent requirements, and fully reflected the value of the deferred pensioners' accrued benefit rights. During the year, other than AVC transfers out, 2 transfer payments were made. All calculations conform with factors and instructions provided by the Actuary. Transfer values are calculated as the cash value of the deferred pension entitlement, the spouse's pension payable in the event of death and an allowance for guaranteed pension increases. No allowance is included for discretionary pension increases that may be paid.

At the meeting held on 1 June 2009, the Committee agreed to the Authority's proposal that the Fund should cease to accept transfer values with immediate effect.

Financial and Investment Review

The Committee, after consultation with the Investment Consultant and Actuary, set a broad investment policy with day to day investment decisions being delegated to the Investment Managers.

During the year to 31 March 2019, net assets increased by £3.992m to £352.991m.

The investment management expenses for the year ended 31 March 2019 amounted to £170,000. The rebate of £229,000 resulted in a net rebate of £40,000.

Investment Report

Investment performance

The following table details the Port of London Authority Pension Fund's (the 'Fund') estimated investment performance over historic periods.

Performance figures are shown to 31 March 2019 and are net of investment management expenses.

	1 year (% p.a.)	3 years (% p.a.)
Fund	5.4	8.7
Benchmark	4.9	8.3

Investment strategy

The Committee of Management's (the 'Committee') objectives for setting the investment strategy of the Fund are:

- "funding objective" - to ensure that the Fund is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Port of London Authority (the 'Authority');
- "stability objective" – to have due regard to the likely level and volatility of required contributions when setting the Fund's investment strategy; and
- "security objective" – to ensure that the solvency position of the Fund (as assessed on a gilt basis) is expected to improve. The Committee will take into account the strength of Authority's covenant when determining the expected improvement in the solvency position of the Fund.

Market commentary to 31 March 2019

- The MSCI AC World Index rose 5.6% in local currency terms over the last year. In contrast to the strong and relatively stable equity market uptrend seen through much of 2016 and 2017, 2018 and 2019 have seen lower returns and higher volatility. Having fallen at the start of 2018 and largely recovered by the middle of the year, global equities were again rocked. Rising concerns of slowing global growth and corporate earnings, alongside trade war fears, led to a 12.5% fall in global equities over Q4 2018, the steepest quarterly decline since 2011. Concerns eased in the new year, helping markets rise by 12.3% over Q1 2019. On a sector level, the more defensive Health Care (13.4%) and Utilities (16.0%) sectors were the best performers whilst the more cyclical Industrials (2.1%) and Financials (-4.4%) sectors underperformed.
- The US Federal Reserve (Fed) continued on its course to normalise monetary policy though 2018 but abruptly changed track in January 2019 by announcing that further rate hikes would be put on hold and their bond buying program would end. Over the period to March 2019, the Fed hiked the Federal Funds rate on three occasions, reaching 2.25%-2.50% in December 2018. The European Central Bank (ECB) ended their asset purchase program in December, although reinvestment of principal payments is continuing indefinitely. The ECB also announced cheap bank lending under another Targeted Long-Term Refinancing Operations program (TLTRO) to begin in September. Meanwhile, the Bank of England (BoE) raised rates to 0.75% in August as economic data stabilised and inflation remained above target.
- Production cuts undertaken by the Organization of the Petroleum Exporting Countries (OPEC) and increased geopolitical tensions drove up Brent oil prices over much of the first half of the year, peaking at $86/bbl in October. Fears of a slowdown in global growth, coupled with high US inventories and the waiving of US sanctions for eight Iranian oil importers, caused oil prices to slump in Q4 2018. Prices rebounded somewhat in Q1 2019 as fears eased with the price of Brent Crude ending the year down 2.7% at $68/bbl. Amidst weakening Chinese economic data and heightened trade tensions, industrial metals also fell sharply in Q4 2018 but rebounded over Q1 2019, falling 4.1% over the year and resulting in the S&P GSCI Commodity index finishing the year to March 2019 down 3.0%.
- UK fixed interest gilt yields had a volatile year, tending to rise and fall in tandem with global yields and Brexit developments. Yields fell sharply over the second half of the period amidst lowered monetary tightening expectations and downgraded growth and inflation outlooks. Yields fell across the curve but particularly at longer maturities. Index-linked gilts outperformed fixed interest gilts as they returned 5.5% versus 3.7%, boosted by higher breakeven inflation.
- Sterling ended the twelve-month period 0.3% higher on a trade-weighted basis. Sterling remained subdued over the year despite increasing Brexit uncertainty. Some sterling

weakness against the US dollar improved the return on global equity markets to unhedged UK investors as the MSCI AC World Index rose 10.5% in sterling terms.

- UK investment grade corporate bond credit spreads – the difference between corporate and government bond yields – widened by 16bps to end the twelve-month period at 142bps. Spreads widened steadily through the first half of the year before widening more rapidly in Q4 2018 against a backdrop of heightened volatility of risky assets. Spreads narrowed, however, in Q1 2019 as risk sentiment improved.
- UK commercial property returned 5.6%, supported by a steady income return. Capital value appreciation slowed through the year with capital values falling in Q4 2018 and Q1 2019. The retail sector underperformed over the year as fears over the health of the high street took hold and UK economic performance remained lacklustre.

Equity market commentary

- UK equities posted a return of 6.4% over the year. UK equities rose in Q2 2018 as sterling depreciation and higher energy prices boosted UK equities. After stalling in Q3 2018, they fell by 10.2% in Q4 2018 with the sizeable Energy sector hit hard by falling oil prices and the Industrial sector hit by slowing global growth and trade tensions. Brexit uncertainty has also been a sizeable drag on more domestically-focused sectors.
- Performance once again varied greatly across sectors. Health Care (20.4%) was the best performing sector. The sizeable Oil and Gas (15.6%) and Basic Materials (18.3%) sectors also posted strong returns over the year, despite poor Q4 2018 performance driven by falling commodity prices. Telecommunications (-12.9%) and Financials (-2.0%) were the worst performers.
- UK large-cap equities (7.7%) outperformed both mid cap (1.0%) and small cap equities (1.0%) over the 12-month period. Large-cap equities benefitted from strong performance from large Healthcare companies and a high allocation to the Oil & Gas and Basic Materials sectors. Mid-cap equities suffered from their large exposure to the underperforming Industrials sector as well as poor stock-specific performance amongst the mid-cap Healthcare and Basic Materials sectors. Small cap equities were supported by their sizeable exposure to investment managers but suffered broad-based poor performance elsewhere given their higher exposure to the weakening UK economy and Brexit-related risk.
- US equities outperformed other markets over much of 2018 as a strong US economy – driven by a strong labour market, increased government spending and tax cuts – boosted US corporate earnings. Earnings were particularly strong in the large Health Care and Technology sectors. However, the gap between the US and other markets' returns narrowed sharply in December as US earnings expectations were revised down, particularly in the Technology sector, on concern over an over-tightening Fed policy, the health of the Chinese economy and ongoing trade tensions. However, US equities rebounded in Q1 2019 despite slowing economic releases as a dovish shift, towards less tight monetary policy, from the Fed boosted investor sentiment. The US remained the best performing region over the year, returning 9.4% in local currency terms with Utilities (20.2%) and Health Care (16.0%) the best performing sectors and Basic Materials (-2.7%) the worst.
- Fading economic momentum in the Eurozone as well as heightened political risk weighed on Europe ex UK equity performance over the year with the index returning 3.6% in local currency terms. The rising Italian budget deficit, election upsets in Germany and fears over European banks' exposure to Turkey, following sharp falls in the Turkish lira, were drags on performance. Economic data worsened through the year with the manufacturing purchasing managers index (PMI) – a forward indicator of economic growth in the region – falling from 56.6 in March 2018 to 47.5 in March 2019. Utilities (19.6%) and Oil & Gas (15.9%) were the best performing sectors whilst Financials (-9.0%) and Basic Materials (-2.9%) were the worst.
- Japanese equities were the worst performing region in local currency terms in all but Q3 2018, ending the year down 4.1% in local currency terms. Disappointing economic data (Japanese GDP declined in both Q1 2018 and Q3 2018), an appreciating yen, political scandals and global trade tensions all weighed on the region over the year. As with Europe, the Japanese manufacturing PMI fell into contractionary territory towards the end of Q1 2019. The export-sensitive Consumer Goods (-8.0%) and Industrials (-5.3%) sectors were hit by concerns over global growth and trade whilst the Basic Materials (-13.6%) and Oil & Gas (-15.3%) sectors were hit by falling commodity prices, particularly in Q4 2018. However, a stronger yen boosted returns to -0.9% in sterling terms.

- Emerging Market equities returned -1.6% in local currency terms over the past year. Much of the region's negative return occurred in Q2 2018 as the region was hurt by US dollar strength and idiosyncratic shocks in Turkey and Brazil. Poor performance continued into Q3 2018 as trade tensions between the US and China escalated and concerns over the Chinese economy increased. EM equities were the best performer in Q4 2018 as a 10% decline in Chinese stocks was countered by double-digit positive return from Brazilian stocks following the election of Jair Bolsonaro (but the market still fell 7.4% over the year in local currency terms). EM equities rebounded alongside global equities in Q1 2019 but lagged slightly with lower earnings growth countering valuation multiple expansion. EM currency appreciation raised the year's return to 0.1% in sterling terms.
- In the FTSE All World ex UK Index, the best performing sectors (in sterling terms) were Health Care (13.8%) and Utilities (17.1%) whilst Basic Materials (0.7%) and Financials (0.1%) underperformed.

Currencies and Interest Rates commentary

- Sterling ended the 12-month period up 0.3% on a trade-weighted basis. Sterling fell back in Q2 2018 as weak UK economic data and a lack of progress in Brexit negotiations increased the risk of a 'no deal' Brexit and lowered expectations of future rate hikes. A further bout of Brexit uncertainty followed the negative UK reaction to the EU / UK Government's proposed Brexit deal and renewed economic weakness led sterling lower in Q4 2018. Sterling remained remarkably stable over Q1 2019 as Parliament tried to take control of the Brexit process, voting against a No Deal and forcing a Brexit extension on the Government.
- The US dollar was up 6.6% on a trade-weighted basis and 7.1% against sterling over the year. Widening interest rate differentials with other economies, as a result of tighter US monetary policy, strong economic performance and global risk aversion led the dollar higher in Q2 2018. This positive momentum continued into the second half of the year but the Fed's softer approach to further interest rate hikes caused dollar strength to level off towards the end of the period.
- Meanwhile, sterling moved broadly sideways against the euro (The euro fell by 1.7% against the pound). Weaker economic data in the Eurozone and a continued easy monetary stance from the ECB kept the euro weak on a trade-weighted basis (-4.3%). The ECB's QE program ended in December, but this was accompanied by indications that future rate hikes would be pushed into late 2019 to 2020 and the announcement of a new set of TLTROs. Bouts of risk aversion in global markets, amid heightened geopolitical tensions, led to safe-haven flows into the Japanese yen over much of the year and particularly in Q4 2018. However, these flows were countered by poor economic data, a continued accommodative monetary policy stance from the Bank of Japan and a rebound in global investor sentiment in Q1 2019. Overall the yen was unchanged on a trade-weighted basis over the 12-month period but appreciated by 3.3% against sterling.

Gilt returns

- The FTSE Actuaries Conventional UK Gilts All Stocks index returned 3.7%, whilst FTSE Actuaries Index-Linked UK Gilts All Stocks index returned 5.5% as yields fell across both curves. Concerns over global growth alongside the market pivot in US interest rate expectations away from further rate rises – the market began pricing a 2019 rate cut from the Fed – pushed down global yields towards the end of the period.
- Short-dated gilts underperformed due to their lower yield and duration. Yields fell for both medium and long-dated gilts with long gilts outperforming medium gilts, despite yields falling less amongst longer maturities, due to the index's higher duration.
- Index-linked gilts outperformed fixed interest gilts across maturities due to their longer duration and an increase in breakeven inflation. The yield-sensitive long index-linked gilts index outperformed as yields fell over the year, but mainly in the second half of the period.

UK Investment Grade Credit

- UK iBoxx non-gilt credit spreads (the difference between the yields on non-government bonds and equivalent maturity government bonds) widened by 16bps to 141.8bps over the 12-month period.
- Spreads widened over 2018 in line with the pattern across global credit markets, as growth and trade concerns escalated, UK growth and Brexit concerns were an additional weight on UK corporate debt. Spreads widened sharply in Q4 2018 as greater risk aversion swept through riskier markets. However, spreads fell back in Q1 2019 as central banks took a step back from their tighter monetary policy plans, financial conditions improved, and yields fell.

Despite the rise in spreads, UK non-gilts posted a 3.7% return, supported by strong income returns.

- Higher quality corporate bonds underperformed, despite AAA-rated bond yields falling the most (-21bps), due to their lower yield and duration. Spreads widened most for BBB-rated bonds (32bps), but strong income returns supported overall returns. Spreads for AA-rated and A-rated bonds both rose by 6bps.

Investment Income

Income for the year was as follows:

	2019	2018
	£000	£000
Income from pooled investment vehicles	**15,104**	6,586
Interest receivable on cash deposits	**3**	1
	15,107	6,587

Equity income is re-invested in the Equity Portfolio.

Contributions

A revised Schedule of Contributions was prepared following the 2018 actuarial valuation as required by Section 227 of the Pensions Act 2004. All contributions due under the Rules from both the Employer and the Employees have been received by the Fund and included in the audited accounts.

Fund account

For the year ended 31 March 2019	2019	2018
	£000	**£000**
Income		
Contributions	7,924	7,509
Investment income	15,107	6,587
Change in market value	1,627	3,715
Total Income	**24,658**	**17,811**
Expenditure		
Benefits payable*	(20,010)	(20,091)
Payments on account of leavers	(696)	(196)
Investment management expenses	40	285
Total expenditure	**(20,666)**	**(20,002)**
Net (decrease)/increase in the Fund during the year	3,992	(2,191)
Opening net assets of the Fund	348,999	351,190
Closing net assets of the Fund	**352,991**	**348,999**

*The total cost of pensions and annuities payable from the Fund at 31 March 2019 was £18,667,656 per annum. This amount was £233,129 per annum lower than at 31 March 2018.

Net assets statement

As at 31 March 2019	2019	2018
	£000	**£000**
Investment Assets		
Pooled investment vehicles	352,729	326,818
AVC investments	1,281	1,309
Other investment balances	797	19,834
Net investment assets	354,807	347,961
Investment Liabilities - Derivatives	(242)	-
Total Net Investments	354,565	347,961
Net current assets/(liabilities)	(1,574)	1,038
Net assets	352,991	348,999

Pension increases
In accordance with the Rules of the Fund, an increase in the pensions of retired staff and beneficiaries was made with effect from 1 December 2018. The increase was 3.38% and applied in all instances to staff who had left service prior to 1 July 2017. The increase was also to be applied to deferred pensions and potential benefits, except for former deferred members of the PLANPS where Statutory Revaluation in deferment applies.

In the case of those members of staff who left service between 2 July and 30 November 2018, a proportional amount of the standard increase was paid on 1 December 2018.

In the case of pensioners below the age of 55 years on 1 December 2018, the increase was to apply from their 55th birthdays.

Where a pensioner had a Guaranteed Minimum Pension which had been increased by the State in April 2018, the amount of the GMP at State Retirement Age was deducted before applying the increase.

Report on Actuarial Liabilities
Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustees and the Employer and set out in the Statement of Funding Principles, which is available to Fund members on request.

The most recent full actuarial valuation of the Fund was carried out as at 31 March 2018. This showed that on that date:

The value of Technical Provisions was	£405.3m
The value of the assets was	£347.7m

Results
In accordance with the Statutory Funding Objective, as at 31 March 2018, the assets covered 86% of the Fund's liabilities and the deficit was £57.6m (assets of £347.7m being less than liabilities of £405.3m). The assets covered 64% of the Fund's buy-out liabilities at that date.

Following the valuation, the Committee of Management and the Authority put in place a Contribution Schedule with the aim of removing the deficit over the period to 31 August 2026. The Authority will contribute £4m per annum towards the deficit until 31 August 2026. The Authority will contribute as follows in respect of the deficit:

- 1 April 2018 to 31 December 2018
  level monthly instalments of £333,333

- 1 January 2019 to 31 December 2024
  £4m per annum, payable by 31 January in the calendar year to which the contribution relates

- £2m in Quarter 4 2019, payable by 31 December 2019

- £2m in Quarter 1 2020, payable by 31 March 2020

- 1 January 2025 to 30 April 2025
  £1,333,333, payable by 31 January 2025

In addition, the Authority has agreed to pay additional contributions of £4m per annum, payable in level monthly instalments of £333,333, for the period 1 May 2025 to 31 August 2026.

The next full valuation must be carried out with an effective date no later than 31 March 2021.

Data Protection Act 2018
The Committee and the Employer have both a legal obligation and a legitimate interest to process data relating to members for the purpose of administering and operating the Fund and paying benefits under it. This may include passing on data about members to the Fund's actuary, auditor, administrator, and such other third parties as may be necessary for the administration and operation of the Fund.

The Committee and the Employer are both regarded as 'Data Controllers' (for the purposes of the Data Protection Act 2018) in relation to data processing referred to above and can be contacted at the address shown below.

Furthermore our advisers Aon Hewitt have set out an explanation of how they, and the scheme actuary, use personal information when providing actuarial services to pension scheme trustees; this explanation can be found at www.aonhewitt.co.uk/privacy-statement.

Disclosure Regulations

The Pensions Regulator (TPR)
From April 2005 there is a new regulator of work-based pension schemes. Called the Pensions Regulator, it replaces the Occupational Pensions Regulatory Authority (OPRA).

TPR has new powers and a new approach to protecting pension benefits. TPR has a wide range of powers to help put matters right. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme.

TPR, Napier House, Trafalgar Place, Brighton, East Sussex, BN1 4DW.

Internal Dispute Resolution Procedure
The Pensions Act 1995 requires all pension schemes to have an internal disputes resolution procedure to deal with any disagreements between the Trustees and any member, prospective member or beneficiary. The procedure will not restrict any member's right to refer any complaint to TPAS or the Pensions Ombudsman, but they may refuse to hear a complaint until it has been considered through the Internal Dispute Resolution Procedure.

If you wish to make a complaint, you must do so in writing to the Pensions Manager. She will consider the complaint and send you her written decision and explanation, where possible within two months. If you are still dissatisfied, you have the right to appeal to the Trustees. Full details of the procedure are available from the Pension Manager.

The Pensions Manager, Port of London Authority, London River House, Royal Pier Road, Gravesend, Kent DA12 2BG

The Pensions Advisory Service (TPAS)
TPAS, a voluntary organisation providing free pensions advice, has been established to assist members and beneficiaries of the Fund in connection with any difficulties that they have failed to resolve with the Trustees or administrators. It tries to resolve problems by arbitration, but where arbitration is unsuccessful in reaching a satisfactory agreement between the parties concerned, TPAS can refer cases to the Pensions Ombudsman. He will adjudicate and his decision is binding on both parties.

TPAS
11 Belgrave Road, London SW1V 1RB
The Pensions Ombudsman can be contacted at 10 South Colonnade, Canary Wharf, London E14 4PU.
This report is prepared in accordance with the Disclosure Regulations. Enquiries concerning the Fund or an individual's entitlement under it should be addressed to the Secretary.

Contact

For more information about any of the topics covered in this newsletter or for general information about the PLA Pension Fund, please contact:

Secretary
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